

**SCHOOL DISTRICT OF PHILADELPHIA
REVIEW OF STUDENT ACTIVITY FUNDS**

February 2009



CITY OF PHILADELPHIA

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City Controller

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Deputy City Controller

February 25, 2009

Dr. Arlene C. Ackerman
Superintendent of Schools
School District of Philadelphia
440 North Broad Street
Philadelphia, Pennsylvania 19130

Dear Dr. Ackerman:

The City Controller's Office has performed an assessment of the adequacy and application of controls over Student Activity Funds administered at the school level for the fiscal year ended June 30, 2008. This assessment was conducted pursuant to Section 6-400 (d) of the Home Rule Charter. A synopsis of the results of our work is provided in the executive summary to the report.

We discussed our findings and recommendations with your staff at an exit conference. We have included your written response to our comments as part of the report. We believe that our recommendations, if implemented by management, would improve the controls over the administration of Student Activity Funds. Our recommendations have been numbered to facilitate tracking and follow-up in subsequent years.

We would like to express our thanks to you and your staff for the courtesy and cooperation displayed during the conduct of our work.

Very truly yours,

ALAN BUTKOVITZ
City Controller

Members of the School Reform Commission
Mr. Michael Masch, Chief Business Officer, School District of Philadelphia
Honorable Michael A. Nutter, Mayor
Honorable Anna C. Verna President and Members of City Council



School District of Philadelphia Review of Student Activity Funds Executive Summary

Why the Controller's Office Conducted this Review

The School District's Audit Services Division published a Schools Fund Manual (Manual) to provide principals, school staff, and students with the rules, regulations, and procedures to be followed in administering, safeguarding, and accounting for Student Activity Funds. We conducted a review to determine if selected schools within the School District of Philadelphia were complying with the provisions of the Manual.

What the Controller's Office Found

We found the Manual's policies and procedures to be comprehensive, and if implemented at the schools, would adequately safeguard and account for student activity funds. However, we found non-compliance with the Manual at the 15 high schools we visited to be a common occurrence. Our tests of selected student activity funds and transactions within each fund identified significant breakdowns in internal accounting controls which increase the risk and opportunity for fraud and irregularities to occur at the schools and go undetected. Some of our findings include:

- Inadequate controls over expenditures. Payments were made with no invoices or supporting documentation. Some invoices were paid twice, invoices were paid in full even though not all the goods were received, invoices for supplies purchased as far back as 2005 were paid in 2008, and one payment included a late fee of \$416.
- Payments were made for inappropriate items including office equipment, subscriptions, refreshments and luncheons, spring water, awards, and salaries. In addition, the salaries were not reported to the Internal Revenue Service.
- Bank reconciliations included checks that have been outstanding for long periods of time (up to eight years). Long outstanding checks unnecessarily complicate the bank reconciliation process, provide an opportunity for irregularities, and may result in noncompliance with the State's unclaimed monies law.
- Expenditures were charged to individual student activities accounts even though there were insufficient funds in the account to cover the expenses. The resulting negative balances were covered up by transferring excess funds from other student activity accounts designated for other purposes.
- Principals and School Operations Officers served as program sponsors, in which they performed incompatible duties such as collecting payments, initiating disbursements, and maintaining the accounting records.
- Inadequate controls over cash receipts. Deposits were made that lacked supporting documentation. Without such documentation we could not determine if all funds that were collected were deposited intact and timely.

What Controller's Office Recommends

The City Controller's Office has recommended action that school principals, school operations officers, and regional business specialists should take to improve controls and accountability over student funds. These recommendations are discussed in the body of the report.

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INTRODUCTION

BACKGROUND

The School District of Philadelphia (District) has established Student Activity Funds that represent student-owned property, in the nature of a trust for educational purposes. Additionally, there are private funds, which are given by students for a special purpose to a school official acting as their agent for the purchase of goods and/or services. These funds are used to finance a program of activities not part of the regular curriculum. Funds are raised for purposes that include: various clubs, school shows, sports activities, class dues used for yearbooks, prom, and other extracurricular activities.

Student Activity Funds are held in the custody of and administered by individual schools. Funds are maintained in one bank account and accounting records are maintained in order to track each activity's share of the balance. Funds in excess of current requirements may be invested, e.g. in certificate of deposit. The District's central administration receives periodic information on account balances and activity from each school and reports year-end balances in its Comprehensive Annual Financial Report. At June 30, 2008 approximately \$5.3 million in Student Activity Funds was held in bank accounts and certificates of deposit.

The District, through its School Funds Manual (Manual), has established regulations and guidelines for administering Student Activity Funds. The Manual includes sections that describe the responsibilities of principals, the school operations officers who are the accountants for each school's funds, and each activity's sponsor (usually a teacher or coach). Also included in the manual are sections covering internal controls, receipt and disbursement procedures, and accounting for specific activities.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of our review were to determine whether controls have been established over Student Activity Funds at the school level. We also reviewed compliance with regulations and guidelines described in the School Funds Manual.

Our work consisted of interviewing District officials as well as obtaining and reviewing policies and procedures. We visited 15 high schools. At each school we selected two student activity funds for testing. And, on a test basis, we examined revenue and expenditure transactions, reviewed accounting records, interviewed school officials, evaluated controls, and determined compliance with provisions of the Manual.

We conducted our work between May and September 2008 in accordance with generally accepted government auditing standards.

CROSS-CUTTING CONTROL WEAKNESSES

The School District’s Audit Services Division published a Schools Fund Manual (Manual) to provide principals, school staff, and students with the rules, regulations, and procedures to be followed in administering, safeguarding, and accounting for Student Activity Funds. We found the Manual’s coverage of internal controls over receipt and disbursement procedures, and accounting for specific activities to be comprehensive and well written. And, we commend the District for its efforts. However, during the course of our visits to 15 high schools we found non-compliance with the Manual’s guidance to be a common occurrence. Our tests of selected student activity funds and transactions within each fund identified significant breakdowns in internal accounting controls which increase the risk and opportunity for fraud and irregularities to occur at the schools and go undetected. Many of these cross-cutting findings are listed in the following chart and discussed in this section of the report. Other findings related to specific schools are discussed in the Individual School Controls and Compliance section of the report.

School	Negative Activity Balances Improperly Created & Eliminated	Student Body Activities Account Improperly Used	School Related Funds Improperly Retained & Accounted For	Inactive Activity Account Balances Not Closed	Invoices Not Signed or Dated Upon Payment	Outstanding Checks Carried for Years on Books	Finance Committee Not Established	Competitive Bidding Requirement Not Followed	Activity Budget Not Prepared
Bok	X	X	X	X	X		X	X	X
Central	X	X	X	X			X		X
Edison		X	X	X		X			
Fels		X	X	X		X			
Frank’d	X		X	X		X			
Franklin		X	X	X					
Furness		X	X	X	X	X	X		
GAMP	X	X	X		X				
L’nau		X							
Lincoln	X		X	X					
NE	X	X	X	X	X	X			
Wm. Penn.		X	X	X		X			X
Saul	X		X	X			X		
Swenson	X	X	X	X		X			X
Wash’tn	X	X	X	X	X	X	X	X	

Negative Activity Account Balances Improperly Created and Eliminated

Nine schools we visited reported negative balances for at least one activity. This negative equity ranged from a few dollars to \$26,727. The existence of negative balances for individual activities means that expenditures were made even though there were insufficient funds to cover expenses. This is not permitted under Manual guidance (IV-D-5). Deposits for school trips, proms and the like are the only cases where negative balances are permitted. As students make payments and conduct fund raising activity, the amounts advanced for deposits are recouped and the remaining costs covered.

The largest negative equity account is the Bournemouth Trip account at Central High School (\$26,727). This account has had no activity since 2003. This account represents a school-sponsored trip to England. A significant portion of the costs were to be paid through a single sponsor’s donation. However, the donation was not made before the trip took place. When the funds were not received, the activity was left with a material deficit.

School operations officers (SSO), who are responsible for Student Activity Fund accounting, made transfers from other accounts in order to cover these deficits. Recordkeeping difficulties can arise from this practice. For example, at the Girard Academic Music Program, we found several transactions for the period December 2007 through February 2008 totaling \$1,776 that were made from accounts such as the productions account to athletics, from scholarships/stipends to student welfare, and from productions to the “general” fund to cover trip costs. None of these transactions were supported by statements detailing the reasons for the transfer, as required by the Manual. Notations were made, however, in ledger accounts under the notation of a general journal entry, listing the respective activities. We also found similar transfers at Central High School. In all, there were \$7,500 in transfers to cover shortfalls. We saw no transactions to reverse these amounts.

In addition to not being permitted under Manual guidance, transfers such as these are an indication of poor management and a lack of oversight over specific activities.

Student Body Activities Account Improperly Used

Section IX of the Manual includes guidance specifically directed to the source and use of funds deposited to the Student Body Activities Account – formerly referred to as the General Fund or Principal’s Discretionary Fund. Use of these former titles is to be discontinued per the Manual and the account, under direction of principals, is to be managed carefully. The Manual also notes that the Student Body Activities accounts have come under scrutiny from the Pennsylvania Auditor General. The Manual requires that funds included in the Student Body Activities Account be spent for the general welfare of the student body and for purposes not currently funded by the District. All students do not have to benefit; however, the majority should have the opportunity to benefit. Decisions on disbursements are not to be made unilaterally by principals and should be shared with students or their student government representatives, to be evidenced by minutes, memos, etc. The sources of funds deposited to the Student Body Activities Account include vending machine commissions, interest earnings not allocated to specific activities, and the balances of accounts for student activities that have been discontinued or had no activity.

Despite the Manual’s requirement regarding the account’s name, we found that 12 of the 15 schools we visited still referred to the Student Body Activities Account as the General Fund or Principal’s Account. This conveys the idea that the funds are to be spent solely at the discretion of respective principals. And, as a result, we found disbursements from these accounts were not always used for purposes that benefit students. We discuss examples of the improper use of the Student Body Activities Account found at specific schools (such as office equipment, and supplies, subscriptions, lunches and dinners) in the Individual School Controls and Compliance section of the report. In addition, because principals are the sponsor of these accounts, it is possible for a principal to authorize payments to him or herself, as we found with the principal at Edward Bok High School.

School Related Funds Improperly Used and Accounted For

School-related funds represent amounts received by schools and held temporarily until remitted to the District or disbursed for another intended purpose. Examples of these funds include various grants, amounts forwarded by the District’s Office of Specialized Services, lost book, transcript, and ID card replacement fees. Funds are held by schools in their student

activity accounts and included in quarterly reports to the District's central administration. Separate ledgers are to be established to segregate them and facilitate their accounting. Funds remitted to the District administration are credited to each school's operating budget.

Despite these regulations, as described in section IX of the Manual, we found several cases where schools retained amounts collected, did not properly segregate them in their accounting records, and did not forward amounts to the District. Specific examples of improper accounting include:

- Amounts received by the District's Office of Specialized Services were deposited to the "Principal's" Account at Furness High School and not accounted for separately from other funds included in that account.
- Amounts collected from students for IDs at several schools, although segregated in the accounting records, were not forwarded to the District as required. Schools have been permitted to retain funds in order to purchase ID card supplies directly from the vendor.
- Amounts collected for lost books and transcript fees, amounting to \$24,600 in August 2007, were not remitted to the District as of May 2008 by nine of the schools visited.

In addition, schools used amounts collected from fines and other sources for purposes other than those for which accounts were established. For example:

- At Furness High School, \$250 in ID funds were used to pay for a student activity related dinner.
- Saul High School transferred the entire balance of its ID account, \$9,780, to the Student Body Activities Account. Swenson High School, likewise, transferred \$928 from the ID account to a class dues account.
- A total of \$460 from the Washington High School ID account was used to pay a staff member an "after hours stipend" and a football team meal.
- Central High School paid \$1,149 for meals from its ID account.
- Washington High School transferred \$1,200 from its textbook account to other student activities, and purchased \$10,500 in textbooks directly from vendors.

Inactive Account Balances Not Closed

Activities at 13 schools had accounts for which there was no activity for at least one year. In all, we found 173 such accounts with balances usually in the range of hundreds of dollars. The existence of long dormant balances provides the opportunity to use funds for unauthorized purposes and has been addressed in the Manual (III-5, IX-Class Finances). According to this guidance, student groups are to designate the use for any funds remaining after each program's conclusion. In the absence of such designation, excess funds are to be transferred to each school's Student Body Activities Account and used for the general benefit of students.

Invoices Not Signed or Dated by Principals Upon Payment

At five schools, we found that principals did not sign and date invoices and other supporting documents upon approving their payment. This should be done in order to prevent duplicate payments. Signing and dating invoices and supporting documentation is required by the Manual (IV-D-2b).

Outstanding Checks Carried on Books for Years

Bank reconciliations at eight schools we visited listed checks that had been outstanding for as long as eight years. Outstanding checks should be reviewed in order to determine why they haven't been cashed and what action may be necessary. Failing to properly dispose of long outstanding checks unnecessarily complicates the bank reconciliation process, provides opportunities for irregularities, and represents an instance of noncompliance with the states unclaimed monies law. The Manual has addressed this subject by including outstanding checks as something the SOOs should monitor as part of the bank reconciliation process (VIII).

No Investment Committees

Individual school Student Activity Fund balances can easily amount to over \$100,000. For example, at May 31, 2008, the balance of Central High's Activity funds was over \$500,000. Because of the significance of these amounts, the Manual (III-13) requires principals to establish finance committees that advise them on investing cash in excess of current needs. Despite this requirement, four of the schools visited that had significant account balances had not established finance committees.

No Evidence of Bidding

Two schools did not adhere to Manual bidding requirements (III-8). The Manual requires school officials to obtain at least three competitive bids for all purchases over \$4,000. Nevertheless, we found six individual purchases at one school that exceeded the \$4,000 threshold with no documentation that competitive bids were obtained. The total of these purchases was \$56,954. Similarly, while conducting our review of controls, we were informed that bids were not always sought at another school.

No Activity Budgets

Budgets which disclose anticipated income and expenditures are not generally established for Student Activity Funds at four schools. According to the Manual (V-2), budgets should be constructed as a fiscal management tool for each activity by sponsors, working with student representatives and principals.

INDIVIDUAL SCHOOL CONTROLS AND COMPLIANCE

In addition to control weaknesses and non-compliance with District guidelines that we consider crosscutting, we also discovered similar matters that may have been present in only a few schools visited or that we consider significant and warranting specific discussion. These matters are described below.

Edward Bok High School

Late, Unsupported Deposits

We found \$3,396 received on April 4, 2008 was not deposited and posted to the Principal's Account until April 11, 2008. \$1,341 of this deposit was cash. Holding funds for extended periods before deposit fails to comply with Manual guidance (IV-C and VIII-A), and does not properly safeguard assets by making them susceptible to misappropriation.

We also could not account for the composition of the \$3,396 deposit. Documentation was available to support the source for only \$170 of the total. School officials have not been able to provide additional information. Without support for the remaining \$3,226, it is difficult to determine whether funds have been submitted intact and in a timely manner. It is likewise difficult to provide assurance that all funds that should have been deposited were deposited and that funds received may have been withheld for inappropriate uses, and other funds substituted for deposit at a later time.

Questionable Expenditures

The following questionable payments from the Physical Education account came to our attention:

- It appears that one purchase may have been paid twice. Two invoices for \$500 each from one vendor were paid. Each invoice was dated identically and was for identical items (100 tee shirts).
- A \$4,200 invoice for 400 staff shirts was paid in full although only 159 shirts were received. There was no documentation why the partial order was paid in full, or whether the delivery was completed.

Bok officials have not been able to provide explanations regarding the disposition of these payments.¹

¹ Both questionable transactions noted involve the same vendor. In all, there were \$10,002 in payments to this vendor during the 2007/2008 school year. City records indicate that this vendor has not paid the required business taxes .

Past Due Invoices

Our review disclosed that the following past due invoices were paid during fiscal 2008:

- Four invoices totaling \$1,141 for athletic supplies purchased in 2005 and 2007, paid in February 2008.
- A payment of \$5,799 for prom supplies that included a late fee of \$416.

No Support for Disbursements

The Manual (III-9) notes that principals should not sign checks unless there is supporting documentation for expenditures. Despite this requirement, we found one disbursement for \$3,740 from Bok's Culinary account with no support.

Central High School

Account Surpluses and Wills

Central maintains numerous accounts within its Student Activities Fund, several of which have material balances. A number of these accounts have had no activity for several years. For example, Class Dues accounts for graduation classes "262" (2003), "263" (2004), "264" (2005), and "265" (2006) have had no significant activity-related transactions since the commencement dates. The total balance of these accounts at May 31, 2008 was \$33,020. The significance of these balances suggests that students' class dues may be excessive and that sponsors should re-examine estimated costs.

Because these activity accounts had no "Class Wills" describing the disposition of any excess funds, their balances have remained essentially dormant. The Manual (IV-H and IX – Class Finances regarding Class Wills) calls for such balances to be deposited to the Student Body Activities Account and used for the general well being of the school.

In a related matter, \$12,889 representing the balance of dues left from several previously graduated classes, was paid to the Alumni Association from the General Account. Although this payment may actually represent the best use of these balances, the disposition of class funds should be addressed by a Will voted upon by students. Without these directions, all such funds should remain in the Student Body Activities Account.

We also found that the School Store account's balance of \$71,136 at June 30, 2008 was relatively constant during the year. The beginning balance for the school year was \$70,149, and never during the year did it fall below \$56,000. This suggests that the store is operating at too high a profit level. The School Funds Manual suggests that a small profit may be required to maintain satisfactory inventory levels. Because the account balance at the start of the school year remained fairly constant, we suspect that too high a profit margin occurred in a previous year. Because this balance has resulted from student purchases, consideration should be given to transferring a portion to the Student Body Activities Account.

Questionable Expenditures/Discretionary Spending

While at Central High School, we noted a number of accounts with activity that was unrelated to their purposes. They are:

- General Account - Central has not complied with the School Funds Manual that specifically addresses the issue of the General Fund, stating that the reference is to be discontinued and the account renamed the Student Body Activities Account. Funds in this account are to be spent for the general welfare of the student body and not for purposes funded as part of general operations. Nevertheless, included in the \$35,792 of total expenditures from this account were payments that should not have been made from student activity funds, such as:
 - Office equipment, supplies, software, etc. (\$5,860)
 - Subscriptions (\$39)
 - Refreshments, luncheons, and dinners (\$89)
 - Building Repair tools (\$192)
 - Postage (\$148)
 - Donations (\$136)
- ID Account - This account is to be used for funds received and disbursed in association with student ID cards. However, the following payments were made for purchases unrelated to the account's stated purpose:
 - Refreshments (\$1,219)
 - Walkie-talkies and supplies (\$822)
 - Copiers, printers, software, and supplies (\$1,271)
 - Awards (\$280)
 - Subscriptions (\$344)
- Student Alumni Account - This account was established by Central alumni to fund various Science Department activities. Despite the purpose of this account, we found a limited number of expenditures were made during fiscal 2008 for unrelated purposes, such as \$500 for the Soph Hop's reservation payment, and \$2,500 that was transferred to the Class 266 account to help cover a deficit balance. Additionally, although outside the period of our review, we noted other questionable transfers and expenditures from this account. The most significant of these include \$20,000 transferred to the General Account in 2003, \$2,554 for school flags and banners in 2004, and \$780 for Cross Country team jackets, also during 2004.
- Salary Payments - In addition to the questionable expenditures noted, we also found salary payments totaling \$14,300 to six individuals, including a current student. These payments were made from a number of student activity accounts for such services as secretarial help, alumni finance assistance, and college essay preparation instructions. Trust fund and Alumni Association contributions were the source of funds for most of these payments. There were no federal 1099 and W-2 forms issued to these individuals.

Salary payments from Student Activity Funds are not permitted under Manual guidance (IV-J-1) because schools do not have their own federal tax identification numbers that are required when reporting these payments. We have been informed that the practice of paying salaries in this manner has been discontinued and that such payments are now made by the Alumni Association.

Payments to Activity Sponsor

We found that activity sponsors were permitted to initiate payments to themselves for related expenses. While this may not appear to be irregular, it is nonetheless not covered in the Manual which calls for payments to be made to payees listed on invoices. Cases such as these present the potential for abuse if activity sponsors are permitted to regularly charge large purchases to personal credit cards and later obtain reimbursement. Such transactions permit sponsors to obtain bonuses and rewards from credit card companies. If permitted often enough, these rewards can become significant. At Central High School, we noted over \$11,000 in reimbursements to one sponsor.

Internal Control Over Receipts

We found that students who arrive at school and do not have their student ID cards may purchase temporary cards for a minimal fee. They can also purchase replacement IDs. We were informed that the staff person collecting these fees does not issue receipt forms to students. There are no controls in place to ensure that amounts collected are submitted for deposit. Without a control procedure such as the use of receipt forms, there is no assurance that all fees collected have been submitted for deposit. Total deposits to the ID account for fiscal 2008 were \$4,000.

Thomas Edison High School

Certificates of Deposit

Edison High School's Student Activities Fund financial report listed certificates of deposit with a total balance of \$43,723. When we asked to examine the largest of these certificates, it could not be located by school officials. Bank officials would not confirm the existence of the certificates to the school because no one currently on Edison's staff was listed on the certificates. Although these certificates matured in 2003, as of the last day of field work, Edison has continued to report these certificates in its activity reports at their original principal amount.

Benjamin Franklin High School

School Operations Officer is Activity Sponsor

Benjamin Franklin High School's SOO is also the sponsor for the school's ski trip. This is not only contrary to Manual guidance (IV-A), but also internal control standards that call for separation of duties involving collecting payments, initiating disbursements, and maintaining accounting records. Without this separation, it is possible for individuals to conceal any irregularities in the accounting records.

Past Due Invoices

Our review disclosed one instance where the \$832 fee for administering the October 2007 PSAT test was not paid until April 2008 – after being referred for late collection.

Questionable Expenditures

From our limited review of student activity expenditures, we found approximately \$1,700 in questionable payments consisting of:

- \$1,348 for luncheons and dinners from the General Account with either no documentation or the attendees were faculty members, and
- \$371 from the General Account to purchase gifts as incentives to take PSSA tests where the recipients could not be identified.

No Support for Disbursement

Payments totaling \$710 were made for school uniforms although there were no supporting invoices.

Samuel Fels High School

Insufficient Activity Records

The Manual emphasizes that activity sponsors are responsible for ensuring that any fund raising activities are conducted in accord with sound business principles (section V). While at Fels High School, our review of two fund raising activities (Athletic Candy Sales and Class of 2008 snack sales) revealed that the amount deposited from sales less the cost of items did not equal amounts deposited to the respective accounts. In each case, our reconciliation differed by immaterial amounts, showing deposit shortages. Each sponsors' records did not include an estimate of sale profits and did not include a reconciliation of sales to the amount deposited. We noted a similar finding in the desk review of accounts conducted by the District's Regional Business Specialist (See Monitoring Responsibilities).

Frankford High School

Sponsor's and School Operations Officer's Records Did Not Agree

Our review of the sponsor's and SOO's records for the Athletics account revealed unreconciled differences. For the 2007/2008 school year, the sponsor's records indicated \$10,672 in deposits and \$6,698 in payments, while the SOO's records showed \$25,199 and \$18,060 for the corresponding activity. There was no indication of the reasons for these differences. Although the Manual (IV-A-6) requires SOO's to periodically review sponsors' records, there was no indication that this was done.

Poor Accounting for Gate Receipts

Included in deposits to the Athletics account were amounts indicated as gate receipts from various sporting events. In one case, we noted that the receipt document was for a rounded amount – \$4,000. Although the Athletic Event Income Statement (form H 206) for this amount broke the total down by ticket type (students with AA cards, full gate admission price), it did not list the actual beginning and ending ticket numbers, as required. Accounting for the event’s receipts was therefore not complete because this control procedure was not performed. Because it is unlikely that these revenues would total an even amount, it is possible that actual receipts were misreported and possibly not forwarded for deposit.

Horace Furness High School

School Operations Officer Prepared Deposit

In addressing internal controls and separation of duties, the Manual (IV-C) instructs activity sponsors to complete School Deposit Slips (form H-200) and forward them along with amounts to be deposited to the SOO. We found three occasions at Furness where the SOO, herself, prepared deposit slips totaling \$735.

Student Welfare Checks Issued to School Operations Officer

The District’s Office of Specialized Services issues funds to families of students from impoverished homes to help buy clothing and school supplies. At Furness, the SOO administers these school-related funds. In our review, we found an instance where a check was signed by the school’s assistant principal and issued to the SOO on behalf of a student whose parents were deemed incompetent. The check was cashed and a school aid then accompanied the student shopping, presenting receipts for the purchases. Issuing payments to the SOO, rather than to an aid or guardian, increases the possibility of potential irregularities should the SOO inappropriately initiate checks to herself.

Students Did Activity Accounting

Sponsors are responsible for maintaining all financial records for their respective activities. However, we found that students are involved in the recordkeeping process for Furness’ National Honor Society. Although students are to be involved in the budgetary process and overall activity management, accounting duties are the responsibility of staff sponsors. Permitting students to perform the accounting function makes it difficult to place the responsibility for any errors that may occur.

Girard Academic Music Program High School (GAMP)

Principal Does Not Sign Bank Reconciliations

As part of their responsibilities described in the Manual (III-10), principals are to review and sign Student Activity Account bank reconciliations. This review provides an additional control over the accounting function. This is not always done at GAMP.

No Support for Disbursements

Activity payments are sometimes made without any supporting documentation. The Manual (III-9) notes that principals should not sign checks unless there is supporting documentation for expenditures. Despite this requirement, we found cases (at least two totaling \$400) with no support.

Questionable Expenditures

We noted one occasion where Student Activity Funds were used to pay for membership in a professional organization, in this case \$110 to the American Choral Directors Association. Because these funds are to benefit students, the Manual (IV-D), does not permit payments of this nature.

Lankenau High School

Inadequate Separation of Duties

Because Lankenau had no SOO, the school principal performed most accounting functions (preparing payments, signing checks, performing bank reconciliations, and keeping records), thus making it possible for any irregularities to go undetected. Only the cash receipt and deposit functions were performed by another individual.

Northeast High School

Deposit Shortage

The Manual emphasizes that activity sponsors are responsible for ensuring that any fund raising activities are conducted in accord with sound business principles (section V). Our review of a fund raising activity involving the sale of snacks and pizza revealed that the amount deposited from sales less the cost of items did not equal amounts deposited to the respective accounts. In each case, our reconciliation differed by \$138, which the sponsor could not explain.

No Support for Disbursement

Payments totaling \$665 related to judges for the school's Jazz Festival were approved and made although invoices were not available to support the services rendered.

Walter B. Saul High School

Principal and School Operations Officer are Activity Sponsors

Despite guidance included in the Manual that limits Principals and SOOs from being activity sponsors because of the potential for abuse (III-5 and IV-A), we found this to be the case in three instances (Vocational and Farm Show accounts for the principal, and the Class of 2011 Dues account for the SOO). The balances of these accounts amounted to over \$34,000. Because they either approve (principals' responsibilities) or record (SOO responsibilities) accounting transactions, these officials should not be involved as sponsors for specific activities.

Account Balance Exceeded Insurance Coverage

As of April 30, 2008, the balance of Saul's student activities fund checking account was \$158,500. This exceeds the \$100,000 limit of deposit insurance from the FDIC in effect at that time. Section IV-B-1 of the Manual directs the SOO to open another account when funds reach the insured limit. We were informed by the SOO that she was unfamiliar with this requirement.

George Washington High School

Account and Cash Balances Not Equal to Ledger

In analyzing and comparing cash on hand and on deposit shown on Washington's balance sheet to that reported in the activities fund ledger, we found a difference of \$216. While immaterial in amount, this difference is indicative of an absence of controls, and also results in misreporting of year-end balances in the District's Comprehensive Annual Financial Report.

MONITORING RESPONSIBILITIES

In order to provide monitoring over school funds management practices, the District created the position of Regional Business Specialist. The duties of this position include assuring compliance with District financial policies and procedures, performing desk compliance checks of fiscal areas, and overseeing and monitoring student activity funds management practices. Based on the numerous cases of noncompliance with Manual guidance, we do not believe that the monitoring process has been effectively performed. We also noted several instances where Regional Business Specialists did not have required bank reconciliations on file for schools they oversee.

OFFICE OF AUDIT SERVICES REPORTS

The District's Office of Audit Services conducts periodic audits of individual schools Student Activity Funds and issues reports on their findings. During fiscal 2008, reports were issued for the following schools:

- Edward Bok High School
- Thomas Edison High School
- Samuel Fels High School
- Germantown High School
- Philadelphia High School for Girls
- Simon Gratz High School
- South Philadelphia High School

Each of these reports cite audit findings similar to those we have reported above. Specifically, cases such as inappropriate use of funds for purchases such as meals and administrative costs, overdrawn accounts, and payment of athletic event expenses from gate receipts were reported. Additionally, a report on internal controls at Germantown High School noted weaknesses including cash that was removed from deposits, deposits not made timely or intact, lack of transaction documentation, and undocumented fund transfers. These weaknesses resulted in the theft of student funds.

RECOMMENDATIONS

The overall effect of all the findings described in this report is misuse of funds that belong to the School District's students. In order to prevent this, individual school principals and school operations officers should take steps to comply with guidance described in the School Funds Manual and strengthen internal controls, specifically:

- Refrain from making expenditures for activities that do not have sufficient balances to cover costs, except in cases such as deposits for school picnics as allowed by the Manual. (08.01.01)
- Refrain from transferring amounts from one activity to another in order to cover deficits. (08.01.02)
- Rename all Principals' and General Fund accounts to Student Body Activities Account in order to convey the permitted use of these funds. (08.01.03)
- Forward all school related funds to the District for inclusion in schools' operating budgets. (08.01.04)
- Transfer funds from all dormant accounts as prescribed in class/activity wills, or to the Student Body Activities Account that is to be used for the general benefit of students. (08.01.05)
- Have principals sign/cancel all paid invoices to prevent duplicate payments (08.01.06).
- Follow-up on long outstanding checks or cancel the payments and deposit the funds according to the state's unclaimed monies requirements. (08.01.07)
- Where appropriate (based on amounts on deposit), form investment committees to provide advice on the disposition of deposits not required to meet current obligations. (08.01.08)
- Refrain from processing payments for purchases where required bids have not been obtained. (08.01.09)
- Refrain from processing payments for student activities that have not formulated required budgets. (08.01.10)
- Retain documentation showing the composition of bank deposits. (08.01.11)
- Provide activity sponsors with periodic financial reports to be reconciled with their own records. (08.01.12)
- Refrain from having students perform accounting functions. (08.01.13)
- Deposit all gate receipts from athletic events intact. (08.01.14)
- Refrain from processing payments that lack supporting documentation. (08.01.15)
- Refrain from making salary payments and thereby failing to comply with tax regulations. (08.01.16)

Additionally, in order to help prevent potential abuses, SOOs who are responsible for performing overall accounting for all Student Activity Funds should never be permitted to act as activity sponsors. Likewise, principals' activity sponsorships should be limited to Student Body Activity accounts in accordance with the Manual.

Principals and SOOs should not permit payments that are inappropriate to the purpose of specific Student Activity Funds. Administrative costs such as office supplies and similar transactions should be paid through general appropriations. The numerous cases where the cost of catered meals, refreshments, subscriptions, etc. paid through principals' and ID accounts should not be permitted. As recommended above, all principals and general fund accounts should be renamed the Student Body Activities Account with all expenditures being jointly approved by principals and student body representatives.

Finally, in order to strengthen controls, Regional Business Specialists must be active in monitoring Student Activity Funds. The frequency of reviews should be increased so that transactions within each activity are examined in order to highlight inappropriate use and control deficiencies.

RESPONSE TO AUDITOR'S REPORT

THE SCHOOL DISTRICT OF PHILADELPHIA
440 N. BROAD STREET, SUITE 301
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SUPERINTENDENT

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February 23, 2009

Mr. Alan Butkovitz, City Controller
City of Philadelphia
Office of City Controller
12th Floor, Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

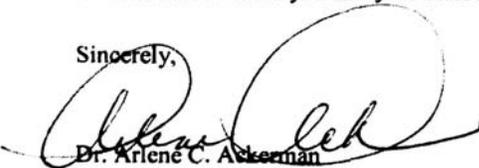
Re: Response to City Controller's Review of Student Activity Funds – February 2009

Dear Mr. Butkovitz:

The attached document will summarize the School District of Philadelphia's formal responses to all matters contained in your audit report issued on February 9, 2009 on the above referenced matter.

I would like to thank you and your staff for your efforts with respect to this audit review.

Sincerely,


Dr. Arlene C. Ackerman
Superintendent

Cc: Michael Masch, Chief Business Officer, School District of Philadelphia
Ellen Steiker, Deputy Chief Business Officer, School District of Philadelphia
Marcy Blender, Comptroller, School District of Philadelphia
Stephen Agostini, Budget Director, City of Philadelphia Finance Department
Harvey Rice, Deputy Controller, City of Philadelphia

School District of Philadelphia's Response to City Controller's Review of Student Activity Funds – February 2009

On behalf of The School District of Philadelphia (the "School District") we would like to thank the City Controller and his staff members for the work they did on the *February 2009 Review of Student Activity Funds* (the "Report"), and for the opportunity to respond to the draft Report and for the inclusion of this response in the final Report.

We appreciate the recognition in the Report by the City Controller's Office of the recent publication by the School District of an enhanced comprehensive on-line School Funds Manual ("Manual") which went into effect for the 2008/2009 school year. The Manual was published by the School District's Audit Services Division with support from the regional business specialists (RBSs) located in each regional office. The Manual provides a comprehensive guide to school staff in accounting for and safeguarding assets in student activity funds that have been established at the schools to benefit the students.

As confirmed by the City Controller in the Report, the Manual is comprehensive and contains the necessary policies and procedures to adequately safeguard and account for student activity funds at the schools. The School District believes that all necessary controls are in place to ensure compliance with the Manual, and, as we indicate below, we are in fact taking several added measures to enhance accountability and compliance.

Many activity sponsors in our schools are teachers and coaches who volunteer to sponsor activities such as shows, clubs, and various other extra curricular programs which would not be possible otherwise, due to lack of funding. Because student activity funds are essential to the creation of a rich, diverse student life at the District's larger schools, especially our high schools, the School District must find an appropriate balance in implementing the reporting and control requirements necessary to assure the safeguarding of student activity fund assets, given the many operational and educational demands placed on school administrators and school activity sponsors. If requirements are enforced too rigidly, this could result in schools not being able to find volunteers and sponsors to support student activities, which would adversely and unduly impact our students who benefit from these activities.

The School District has focused on making improvements to processes and controls over student activity funds over the past few years, and there have been significant positive outcomes resulting from these efforts. As the Report acknowledges, the School District's Audit Services Division and the Comptroller's Office, through periodic internal audits and compliance desk checks, have identified much the same issues as are identified in the Report.

School District of Philadelphia's Response to City Controller's Review of Student Activity Funds – February 2009

The District has used its various reviews and audits as teaching tools with school staffs. In the past year, controls over student activity funds have been strengthened through:

- 1) The enhanced on-line school funds Manual mentioned above;
- 2) Mandatory quarterly reporting on student activity funds by schools to the Comptroller's Office, with active follow-up by the RBSs on any identified issues;
- 3) Mandatory financial transition packets for the Regional Offices and Office of the Comptroller, prepared by outgoing principals for in-coming principals, which include a section on unfinished business related to student activity funds (termination pay is held pending completion of the packet and a full accounting of school assets, including personal property and petty cash funds as well as the student activity funds); and;
- 4) Enhanced training sessions by RBSs at the regional level on key sections of the Manual.

Overall, it is our belief that student activity funds are safeguarded and adequate controls are in place. We are pleased that the findings identified in the Report are not of a material amount or magnitude, which is directly a result of the focused attention that responsible financial administration has received at the school level over the past few years.

At the same time, we take the audit findings in the Report seriously and agree with the recommendations of the City Controller found on page 14 of the Report. The findings have already been shared with principals and school operations officers (SOOs) and RBSs and particular attention has been paid to the specific schools cited in the Report to assure continued compliance with all policies and procedures and accountability for corrective actions as recommended. In most instances the findings at specific schools have already been corrected. In all instances principals and their SOOs are addressing shortfalls identified. For example, at many of the schools *General Activity Accounts* and *Principals Activity Accounts* have been renamed *Student Body Activities Accounts*; old outstanding checks have been researched and cancelled if necessary; class wills and investment committees have been established; and documentation requirements have been emphasized. The findings have also been shared on a general basis with all schools by the RBSs so they can learn from the experience of the ones audited.

Some instances of non-compliance occurred because school staffs were not fully aware of the provisions of the new Manual introduced for the 2008/2009 school year. For example there were new sections on the naming of *Student Body Activity Accounts* and provisions related to lost I.D.s and books. The School District will therefore continue focused training efforts on the new Manual.

School District of Philadelphia's Response to City Controller's Review of Student Activity Funds – February 2009

There are several examples of activities already underway to increase understanding and compliance for student activity funds. RBSs have instructed Principals to update signatories on accounts as staff changes, and to approve and initial all invoices/expenditures. SOOs have been instructed to provide activity sponsors with receipts for deposits and a full accounting of their activity accounts. In addition, it has been reinforced to activity sponsors what their responsibilities are related to reporting requirements for their activity accounts. RBSs have stepped up their efforts to ensure that all reconciled bank accounts are kept on file for their schools and they are reviewing transactions to assure compliance with District policies to the maximum extent possible.

The School District intends to pursue opportunities for cost effective enhancements to the controls presently in place. For example, we will research the cost effectiveness of implementing a specialized application for student activity funds, in addition to emphasizing the use of software such as Quick Books to manage all large funds with higher account balances and larger numbers of transactions. Also, budget dollars will be set aside for more formalized mandatory training programs in all financial matters.

The School District recognizes its responsibility to provide effective controls over student activity funds and will therefore continue to hold school staff accountable for their responsibilities in this regard during periodic training sessions, individualized training, and through ongoing audits and compliance desk checks conducted by our Audit Services Division and by RBSs. In particular we will emphasize the findings in the Report and reinforce implementation of the recommendations made both by the City Controller and by the School District's own Audit Services Division. We will also continue to hold all schools cited accountable to correct findings, and we will commit to a follow-up review within three months to assure that corrective actions are sustained.